

**SUBJECT: Eligible Administrative Expenses, Program Income Funded Programs/ Projects (Including Project Soft Costs and Project Processing Fees), Developer Fees In Lieu of Administrative Costs
Policy Bulletin #21**

EFFECTIVE DATE: November 1, 2003 (Revised 03/01/2006)

The purpose of this Policy Bulletin is to:

- Define eligible administrative and planning costs for OCD funded programs
- Define eligible project related soft costs
- Explain the limits of these costs based on the funding source
- Developer fees in lieu of administrative costs
- Introduce an incentive for leveraging OCD funds for homeowner rehabilitation with other resources
- Allow forgivable lien as additional incentive to limit OCD investment for hard costs to \$5,000

Eligible Administrative and Planning Costs

1. General management, oversight and coordination. Reasonable costs of overall program management, coordination, monitoring, and evaluation. Such costs include, but are not limited to, necessary expenditures for the following:
 - **Staff salaries, wages, and related costs.** In charging costs to this category, the grantee may either include the entire salary, wages, and related costs allowable to the program of each person whose sole responsibility involves program administration assignments, or the prorated share of the salary, wages, and related costs of each person whose job includes any program administration assignments;
 - **Travel costs incurred for official business** in carrying out the program;
 - **Administrative services performed under third party contracts or agreements,** including such services as general legal services, accounting services, and audit services.
2. Other costs for goods and services required for administration of the program, including such goods and services as rental or purchase of equipment, insurance, utilities, office supplies, and rental and maintenance (but not purchase) of office space.
 - **Staff and overhead.** Staff and overhead costs directly related to carrying out the project, such as work specifications preparation, loan processing, inspections, and other services related to assisting potential owners, tenants, and homebuyers (e.g., housing counseling); and staff and overhead costs directly related to providing advisory and other relocation services to persons displaced by the project, including timely written notices to occupants, referrals to comparable and suitable replacement property, property inspections, counseling, and other assistance necessary to minimize hardship.

NOTE: These costs may be charged as administrative costs or as project costs at the discretion of the grantee. See clarification on project related soft costs below.

- **Public information.** The provision of information and other resources to residents and citizen organizations participating in the planning, implementation, or assessment of projects being assisted with OCD funds.
- **Fair housing.** Activities to affirmatively further fair housing.
- **Indirect costs.** Indirect costs may be charged to the OCD program under a cost allocation plan prepared in accordance with OMB Circulars A-87 or A-122 as applicable.
- **Other federal requirements.** Costs of complying with the federal requirements. Project-specific environmental review costs may be charged as administrative costs or as project costs.

Project-Related Soft Costs

The following expenses can be charged only against projects that actually receive OCD funding. Expenses related to projects that are not funded must be charged to general administration. Also, staff time devoted to a funded project can be charged against general administration or project related soft cost, but not both.

- Processing of applications for HOME/CDBG assistance
- Appraisals required by MSHDA
- Inspection(s) of properties
- Preparation and/or review of: work write-ups, work specifications, and cost estimates
- Project underwriting
- Costs associated with project specific environmental review
- Costs associated with informing tenants or owners about relocation rights or benefits
- Costs to provide information services such as affirmative marketing and fair housing information to prospective homeowners and tenants

Limits to Administrative and Project Soft Costs

The limits to administrative and project soft costs are outlined below and vary slightly based on the funding source. The possible funding sources are HOME, MSHDA, CDBG, or grantee CDBG program income.

- **HOME or MSHDA** funding is limited to 10% in administrative costs and an additional 10% for project related soft costs for a total of 20%.
- **CDBG** funding is limited to 18% in administrative costs and an additional 2% for project related soft costs for a total of 20%.
- **Grantee CDBG Program Income** funding is limited to 20% in administrative and project soft costs combined.

Option to Charge Flat 10% Project Soft Costs and 10% General Administration and Planning

MSHDA is allowing Grantees that are funded for non-development activities (Homeowner Rehabilitation and/or Rental Rehabilitation) to charge a flat fee of 10% to the project as a project delivery fee. MSHDA has surveyed Grantees and has found that on an average, the project related costs over and above the costs of rehabilitation and lead assessment and clearance costs is at least 10%. Grantees who choose to charge a flat 10% to projects will also be awarded 10% in general administration.

NOTE: Grantees do not need to have back up documentation to support 10% project fee, but must have documentation for expenses for the 10% charged to general administration and planning. Eligible administration and planning costs are outlined in this policy.

The Office of Community Development generally requires grantees conducting housing development projects (Home Purchase with Rehabilitation (HPR), Acquisition Development and Resale (ADR) or Rental Development) to charge a developer fee in lieu of administrative costs, unless a waiver is given by MSHDA. Policy Bulletin #29 covers developer fees.

Incentive for Leveraging OCD Funds for Homeowner Rehabilitation with Other Resources

In an effort to stretch limited OCD funds for homeowner rehabilitation, MSHDA is allowing a grantee to charge a \$1,000 processing fee to a project (over and above allowable fees described in LIMITS TO ADMINISTRATIVE AND PROJECT SOFT COSTS) that meets the following criteria:

- The total project cost is at least \$10,000.
- There is between \$1,000 and \$10,000 in OCD funds invested in the project for hard costs. The hard costs are typically what are charged by the rehabilitation contractor(s) to do the work.
- There is as much or more in non-OCD funds being leveraged to finance the project (other funding sources could include but are not limited to: MSHDA PIP, Federal Home Loan Bank, USDA Rural Development, Private Lending Institution, or borrower's funds).

The rationale for allowing the project processing fee is that OCD grantees may need to expend considerable time and energy in leveraging OCD resources with other funds. Oftentimes, other funding sources do not pay fees to process their loans/grants; therefore MSHDA is allowing OCD funds to be used to deliver these other funds to the project.

NOTE: MSHDA will consider exceptions to the above lien policies to comply with requirements of other leveraging sources (e.g., Federal Home Loan Bank).

Allow Forgivable Lien as Additional Incentive to Limit OCD Investment for Hard Costs to \$5,000

- OCD will allow grantees to place a five-year forgivable lien on an OCD assisted project of \$5,000 or less where a dollar for dollar leveraging has been obtained.
- Projects with more than \$5,000 in OCD funds for rehab must have a deferred lien at a minimum that is repayable in full when the property is sold, transferred, or no longer occupied by the borrower. (See Policy Bulletin #9, ***Financial Assistance and Lien Requirements***, for further information on lien requirements.)